Ameren Exhibit 4.0

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-0476

REBUTTAL TESTIMONY

OF

LEONARD M. JONES

Submitted on Behalf Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

November 6, 2013

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name and business address.

A. My name is Leonard M. Jones and my business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Are you the same Leonard M. Jones who sponsored direct testimony in this proceeding?

A. Yes, I am.

B. Purpose, Scope and Identification of Exhibits

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to certain positions in the direct testimonies of Illinois Commerce Commission (ICC or Commission) Staff witnesses Mr. Rukosuev, Ms. Harden, and Ms. Everson; Illinois Industrial Energy Consumers (IIEC) witness Mr. Stephens; and Attorney General (AG) witness Mr. Rubin.

Q. What issues are you addressing in your rebuttal testimony?

A. My rebuttal testimony addresses Staff witness Mr. Rukosuev's position on the allocation of a portion of the reconciliation balance to the Electric Distribution Tax (EDT); Staff witness Ms. Harden's position on the rate design for the Transformation Capacity Charge for Rate Zone II for DS-4 +100 customers; Staff witness Ms. Everson's position on the need for updated rate zone allocators; IIEC witness Mr. Stephens' position on AIC's proposed rate moderation; and AG witness Mr. Rubin's positions on the elimination of the DS-4 EDT subsidy, the Commission's use of Straight Fixed Variable (SFV) rate design and AIC's proposed rate design for Residential (DS-1) customers.

Q. What conclusions are supported by your rebuttal testimony?

A. My testimony supports the following conclusions:

1) The Company's proposed revenue allocation methodology is supported by Staff and should be approved;

2) The revenue allocation methodology appropriately contains both minimum percentage and ¢/kWh constraints to mitigate undue bill impacts while permitting movement toward cost-based rates;

3) The proposed revenue allocation methodology constraint of 0.05 ¢/kWh in effect caps the amount of EDT cost increase to DS-4 High Voltage and +100 kV supply voltage customers. It strikes an appropriate balance in working to eliminate the EDT subsidy to DS-4 and allows the subsidy to phase-out over the next few rate proceedings;

4) The cost basis for the EDT Cost Recovery charge is a uniform ¢/kWh value, and pricing for that component should be allowed to adjust toward uniformity for all Rate Zones and classes, subject to the Revenue Allocation Methodology constraint limitations;

5) The proposed lower Transformation Capacity Charge for the Rate Zone II DS-4 +100 kV supply voltage sub-class should be approved because 1) the underlying cost basis for the transformation service supports the lower charge and 2) it permits eventual uniformity in the EDT Cost Recovery charge across all Rate Zones and customer classes;

6) The update to Rate Zone allocators proposed by AIC witness Mr. Stephen Martin provide a reasonable basis to apportion costs among Rate Zones, and are substantially

consistent with the method used to apportion comparable costs to individual rate classes within a Rate Zone; and,

7) The proposal to gradually increase DS-1 and DS-2 fixed charges to recover fixed costs (*i.e.*, movement toward SFV rate design) is consistent with current Commission policy, is reflective of cost-based ratemaking, is supported by Staff, and should be approved.

Q. Are you sponsoring any exhibits with your rebuttal testimony?

A. No.

II. RESPONSE TO STAFF WITNESS MR. RUKOSUEV

Q. Did you review portions of the direct testimony of Staff witness Mr. Philip Rukosuev?

A. Yes. I reviewed the section of Mr. Rukosuev's direct testimony on AIC's proposed cost recovery of the Electric Distribution Tax (EDT). (ICC Staff Ex. 1.0C, pp. 18-23.)

Q. What cost recovery did AIC propose in its direct filing concerning the EDT?

A. The EDT rate structure should have a uniform $/kWh price across customer classes, but doesn't. AIC does not propose a full transition to cost-based rates in its next formula rate update proceeding. Instead, AIC proposes a gradual movement towards all customer classes paying the same average EDT rate, by applying the overall revenue allocation constraints inclusive of the EDT expense. The rate mitigation that AIC has proposed would reduce, but not eliminate, the current subsidy experienced by DS-4 by limiting the total bill impact for each class and subclass by the 0.05¢/kWh increase constraint. (Ameren Exs. 1.0, pp. 23-24; 1.1.)

Q. Does Mr. Rukosuev agree with AIC's proposal to limit the EDT increase to DS-4?

A. Yes. Mr. Rukosuev finds the methodology that AIC outlined in Ameren Exhibit 1.1 to be reasonable, given the slow movement towards cost-based rates for the DS-4 class to date since Dockets 09-0306-0311 (cons.). He also finds that it strikes an appropriate balance of the principles of cost causation, gradualism, and avoidance of rate shock. (ICC Staff Ex. 1.0C, pp. 21-22.) Mr. Rukosuev also recognizes that application of AIC's methodology, over the next several formula rate update proceedings, will substantially reduce and eventually entirely eliminate the present EDT subsidy that the DS-4 class currently experiences. (ICC Staff Ex. 1.0C, p. 20.)

Q. What other EDT-related rate design proposal did AIC make in its direct filing?

A. The current rate design allocates a portion of the reconciliation balance, whether it is a charge or a credit, to the Electric Distribution Tax line item in App 7 of AIC's formula rate. When the reconciliation balance is a credit, as it was in Docket 13-0301, this serves to reduce the amount of EDT expense targeted for recovery through the EDT Cost Recovery prices. When the reconciliation balance is a charge, as is expected in future update proceedings, this serves to increase the amount of EDT expense. As said before, for this particular cost item, there is an existing subsidy to DS-4 customers that AIC believes should be reduced and eventually eliminated. For purposes of determining EDT prices (not impacting the overall revenue requirement collected), not allocating a portion of the reconciliation balance to EDT expense will help to stabilize the amount of EDT expense, as we progress towards a uniform EDT rate across customer classes. Also, as mentioned in my direct testimony, since the EDT cost has a unique underlying cause (the amount of tax paid to the State for energy usage) that would exist independent of AIC's participating in EIMA, not allocating a portion of the reconciliation

balance to EDT expense will help to more closely align EDT expense with the amount of tax paid.

Q. Can you give an example of how the inclusion of a portion of the reconciliation balance would impact the amount of EDT expense that AIC would recover in rates?

A. The underlying EDT expense shown in App 7 of AIC's formula rate filing in Docket 13-0301 is $44.5 million. Allocating a portion of the $(55.3) million reconciliation to the EDT expense reduces the value to about $41.9 million, or about $2.4 million less than its cost basis. In the formula rate update filing to be made next spring (2014) for rates effective January 2015, AIC expects the reconciliation to be positive. Assuming the value is +$70 million, approximately $4.0 million would instead be added to the EDT expense. Assuming all else is held constant; EDT expense would increase to $48.5 million. The added $4.0 million would increase a uniform rate that recovers $44.5 million in actual EDT costs from 0.1206 cents/kWh to 0.1314 cents/kWh. While the difference may not appear exceptionally large, it makes a difficult situation for the DS-4 class (movement toward level, cost based EDT prices) potentially more difficult to achieve. Because the EDT cost is appropriately allocated on kWh sales, the DS-4 class would ultimately receive 41.7% of the incremental total, or nearly $1.7 million of the $4.0 million.

Q. Does Mr. Rukosuev agree with this proposal?

A. No. Mr. Rukosuev recommends that AIC continue to allocate a portion of the reconciliation balance to EDT expense. (ICC Staff Ex. 1.0C, p. 23.)

Q. Does Mr. Rukosuev provide a basis for his recommendation?

A. Mr. Rukosuev states that because the reconciliation true-up includes differences attributable to the EDT, it would be appropriate to continue allocating a portion of the reconciliation to the EDT. He does not criticize the rationale that AIC offered for its rate design change. Given the potential for large reconciliation balances in the ensuing years, not knowing whether the EDT expense will add to or detract from the reconciliation balance, and the EDT price stability benefits of not allocating a portion of the reconciliation to the EDT, I recommend the Commission approve AIC's proposed treatment.

III. RESPONSE TO STAFF WITNESS MS. HARDEN

Q. Have you reviewed the direct testimony of Staff witness Ms. Cheri Harden?

A. Yes. I have reviewed the entirety of Ms. Harden's testimony, ICC Staff Exhibit 2.0.

Q. Has Ms. Harden approved a number of AIC's rate design proposals?

A. Yes. Ms. Harden recommends the Commission approve the following AIC proposals:

- AIC's proposal to implement uniform charges for a customer class in two or more rate zones, if each rate zone's individually calculated cost of service for that class is within 10% of the combined average cost of service for the class;
- AIC's proposal to implement uniform pricing where charges across rate zones would "cross-over" each other;
- AIC's proposed adjustment to DS-3 +100kV and DS-4 +100kV customers to rely on the combined average cost data;
- AIC's proposed methodology for setting DS-5 Fixture and Distribution Delivery Charges;
- AIC's proposal to use the previously approved methodology to set Meter, Transformation, Reactive Demand and Distribution Delivery Charges;
- AIC's proposed 2.5% limitation on the annual increase in the percentage of SFV fixed cost recovery for DS-1 and DS-2, subject to an overall limit of 50%;

- AIC's proposal to establish DS-6 Temperature Sensitive Delivery Service rates (subject to issues or concerns raised by other parties);
- AIC's proposal to condense the uncollectibles recovered in based rates to a single non-residential value; and
- AIC's proposed miscellaneous tariff changes.

Q. Ms. Harden recommends that the Commission require AIC to maintain uniform rates once they are established. Do you agree?

A. I agree in general with her suggestion that once rate uniformity has been reached across two or more rate zones for a particular rate or charge, it should be maintained. We have identified one situation where adhering to this rule for the Transformation Charge for the Rate Zone II DS-4 +100 kV supply sub-class will prevent movement toward uniform EDT Cost Recovery charges within all of Rate Zone II. The cost basis for EDT expense is a uniform ¢/kWh for all customers. The cost basis for equipment providing transformation service within Rate Zone II DS-4 +100 kV supply appears to be below the uniform charge. Departure from uniform pricing appears to be needed in this one instance for either the Transformation Charge or the EDT Cost Recovery. We chose to let the underlying cost basis guide us to which one should depart from uniformity—which in this case in the Transformation Charge.

Q. Ms. Harden recommends that the Commission not approve AIC's "proposed automatic increases in SFV fixed cost recovery in subsequent proceedings." (ICC Staff Ex. 2.0, p. 3:68-69.) Have you clarified what Ms. Harden meant by subsequent proceedings?

A. Yes. In response to data request AIC-Staff 4.01, Ms. Harden confirmed that she was referring to the proceedings that would be initiated under Section 16-108.5(e) of the Act "during each subsequent 3-year period" to review AIC's proposed "revenue-neutral tariff changes." In her response, Ms. Harden also confirmed that she agreed with AIC's proposal to apply the 2.5%

limit in each subsequent update and reconciliation proceeding under Section 16-108.5(d) to gradually move toward the 50% SFV rate design, with the understanding that the Commission will be able to revisit this rate design in the next Section 16-108.5(e) proceeding. AIC agrees with Ms. Harden's recommendation, as clarified in AIC-Staff 4.01.

Q. Are there any AIC proposals that Ms. Harden recommends that the Commission not approve?

A. Yes. There appears to be one point of disagreement. Ms. Harden recommends the Commission reject AIC's proposal to lower the Transformation Capacity Charge for DS-4 +100 kV Supply Service for Rate Zone II customers who have taken service as of December 31, 2012.

Q. What was the basis for AIC's proposal?

A. As mentioned in my direct testimony (Ameren Exhibit 1.0, pp. 32-33), AIC identified specific assets used by DS-4 +100kV customers in Rate Zone II that warrant a lower rate for those customers, at this time. Although future changes in the plant investment serving Rate Zone II DS-4 +100kV customers may warrant a return to rate uniformity across rate zones at a later date, the lower cost basis that exists now for the Rate Zone II DS-4 +100kV sub-class warrants a lower price.

Q. What is Ms. Harden's basis for rejecting AIC's proposal?

A. Ms. Harden appears to have two concerns. First, she believes the proposal would be unnecessarily complicated and confusing for customers who have taken service on different dates. Second, she appears to believe the departure from rate uniformity is not justified.

Q. Do you believe that a departure from rate uniformity is justified in this instance when setting Transformation Capacity Charges for this particular subclass?

A. Yes. The basic premise for a uniform rate, price or charge across rate zones is that the underlying cost of service for the class or subclass across rate zones is not materially different. This is an instance where the cost of service for a particular zone based on existing plant investments supports a departure from rate uniformity across rate zones.

Q. Have you identified any other reasons that justify a decrease in the Rate Zone II DS-4 +100kV Transformation Capacity Charge?

A. Yes. Assessing a uniform Transformation Capacity Charge *and* a uniform EDT Cost Recovery charge would produce revenue in excess of the total cost of service allocated to the rate subclass. Referring to Ameren Exhibit 1.2, page 3 of 6, the Rate Zone II DS-4 +100 kV sub-class shows a total class embedded cost of service of $1,865,717 (*see* column 2). This is the target revenue recovery applicable to this category of service needed to achieve recovery of cost of service. Referring to Ameren Exhibit 1.3, page 6 of 14, line 368, column D, revenue recovered from the current uniform Transformation Capacity Charge is $1,121,955. If the EDT Cost Recovery charge were uniform at the ratemaking expense level proposed in Docket 13-0301, the sub-class would be responsible for $1,478,822 of EDT charges (add the values for Rate Zone II DS-4 +100 kV shown on the tables on pages 21 and 22 of Ameren Exhibit 1.0, or alternatively multiply the average EDT cost per kWh proposed in Docket 13-0301 of $0.0011358 by Rate Zone II DS-4 +100 kV kWh of 1,302,010,090). The total of uniform Transformation Capacity Charge and EDT Cost Recovery charges is $2.6 million. This exceeds the fully allocated embedded cost of service for this category of service of $1.87 by more than $0.70 million. In this one instance, the objectives of targeting revenue recovery equal to the allocated embedded cost of service, uniform Transformation Capacity Charges, and uniform EDT Cost

Recovery charges could not all be met.[1] Meeting the objective of establishing cost-based rates required changing one of the rate design criteria for either the Transformation Capacity Charge or the EDT Cost Recovery. As discussed in my direct testimony, and agreed to by Staff witness Mr. Rukosuev, the EDT Cost Recovery component should ultimately be uniform among Rate Zones and rate classes because of the underlying cost basis. In this instance, the underlying costs incurred to serve the sub-class do not support use of the uniform Transformation Capacity Charge. The cost of assets used to provide Transformation service to the sub-class is below the uniform Transformation Capacity Charge. In this one instance deviating from the uniform Transformation Capacity Charge is warranted.

Q. How do you respond to Ms. Harden's concerns that the proposal is unnecessarily complicated and confusing for customers?

A. The provision impacts only three customers at five service points, in a category of service that includes some of the most sophisticated customers. Administering a lower Transformation Capacity Charge for these customers is unlikely to be either complicated or confusing to these sophisticated purchasers.

Q. Are there any significant rate design proposals that Ms. Harden or other Staff witnesses did not explicitly address in testimony?

A. No, Staff responded to each significant rate design proposal in testimony, further clarified through data request responses. In response to AIC-Staff DR 2.06, Staff stated that rates for the Rate Zone II DS-4 +100 kV sub-class should not produce more than its share of the total

[1] All other price components except the Distribution Delivery Charge are also uniform among Rate Zones for the DS-4 rate class. Mathematically, a negative Distribution Delivery Charge (in other words, a credit) could reduce revenue by $0.7 million to result in total revenue equal to costs, but such solution was not given serious consideration.

allocated revenue requirement. I agree; however, this means that either the Transformation Charge must deviate from uniform pricing or the EDT Cost Recovery charge must ultimately deviate from cost-based pricing for the sub-class. In this instance, deviating from uniformity in the Transformation Charge appears to be warranted.

IV. RESPONSE TO STAFF WITNESS MS. EVERSON

Q. Have you reviewed the direct testimony of Staff witness Ms. Everson?

A. Yes. I reviewed the entirety of Ms. Mary Everson's direct testimony, ICC Staff Exhibit 3.0C.

Q. Ms. Everson testifies that AIC has not provided sufficient support to demonstrate it is no longer appropriate to use rate zone allocators based on pre-merger historical costs for the legacy utilities. As AIC's Director of Rates, why do you believe it is appropriate to update rate zone allocators with more recent, post-merger data?

A. Using more recent, "fresh" data to create cost allocations is preferred when establishing rates. This "fresh" data provides the best opportunity to accurately reflect allocated costs. Reliance on data from the period immediately preceding the date of the merger of the legacy Ameren Illinois utilities will always produce a static allocation factor consistent with that pre-merger time period. It does not seem appropriate to keep allocation factors "frozen in time." Cost allocations based on factors derived from nearly five year old data may no longer resemble how costs are incurred today or be an appropriate basis for allocating costs until electric formula rates would be effective from the next Section 16-108.5(e) proceeding.

Q. How can the choice of Rate Zone allocators ultimately affect the prices set across Rate Zones?

A. Rate Zone cost allocators are the first domino in a chain of tasks performed to arrive at prices. The Rate Zone allocations affect total costs allocated to each of the Rate Zones, which in turn affect the revenue requirement determined for each Rate Zone, which impacts costs allocated to individual classes, which then influences the prices charged customers. The influence on costs allocated to the same classes among Rate Zones will have an impact on rate uniformity. Revised allocators result in different costs and prices, which in turn could impact uniformity achieved. To be clear, it is the determination of costs that establishes the first criteria in the decision to adopt uniformity among the same class between two or more Rate Zones. If costs among Rate Zones for the same rate class are close (within 10%), and their existing prices are also close (within 10%), pricing may be combined (*i.e.*, made uniform). This process is proposed to occur regardless of the Rate Zone allocators ultimately used.

Q. In your opinion, does the analysis sponsored by AIC witness Mr. Steven Martin in his rebuttal testimony support AIC's proposal to refine certain rate zone allocators with post-merger data?

A. Yes. Mr. Martin's analysis shows that if the current allocators had been developed instead using rate case data from Dockets 07-0585-0587 (cons.) (2006 test-year) or Dockets 09-0306-0308 (cons.) (2008 test-year), overall cost allocation results would have been meaningfully different in each of those years compared to values determined from 2009 data. This indicates that expense levels among the legacy utilities had a tendency to change from one year to the next. Latching on to the period immediately preceding the merger may have been reasonable for the period immediately following the merger, but that single point estimate of relative costs among the legacy utilities may not be representative of the relationship of costs today, and, as such, produces individual rate zone revenue requirements that may be too high or too low as

compared to more appropriate allocators. It is also noteworthy that the proposed rate zone allocators resemble comparable allocators used in the class cost of service studies performed for each Rate Zone. For example, in the class cost of service study, customer service expenses are allocated based on the number of customers served, and many administrative and general expenses are allocated based on labor (comparable to "other operation and maintenance expense" proposed for the rate zone allocator).

V. RESPONSE TO IIEC WITNESS MR. STEPHENS

Q. Have you reviewed portions of the direct testimony of IIEC witness Mr. Robert Stephens?

A. Yes. I have reviewed the portions of Mr. Stephens' direct testimony on revenue allocation, IIEC Exhibit 1.0, pages 14-25.

Q. Does Mr. Stephens oppose any of AIC's revenue allocation proposals?

A. Yes. Mr. Stephens recommends that the Commission reject one of the three rate impact moderation constraints proposed by AIC, namely the 0.05¢/kWh. Under AIC's proposal, the rate impact mitigation constraint would be the greater of (1) 0.05¢/kWh; (2) 10%; or (3) a constraint multiple of the system average increase based on a sliding scale starting at 1.5 times system increase for overall increases less than 10%, and reduced by 0.0125 for each percentage point of average system increase greater than 10%, but not less than a factor of 1.0. Mr. Stephens proposes that the Commission eliminate entirely the first prong of AIC's approach.

Q. What was the rationale for including the 0.05¢/kWh constraint in AIC's proposed rate mitigation?

A. The 0.05 ¢/kWh constraint addresses a shortcoming of the current revenue allocation methodology that I addressed in my direct testimony, namely the situation where a rate class pays "such a nominal amount of Delivery Service and Distribution Tax charges that even a relatively small ¢/kWh movement could result in levels that exceed the percentage thresholds – thwarting movement toward cost based rates – even though greater movement would result in relatively immaterial bill impacts." (Ameren Exhibit 1.0, p 12:247-50.) My direct testimony goes on to highlight that the average revenue per kWh is about 0.044 ¢/kWh for the +100 kV supply voltage DS-4 sub-class (RZ I: 0.021 ¢/kWh; RZ II: 0.119 ¢/kWh; RZ III: 0.028 ¢/kWh. This level of average Delivery Service and Distribution Tax revenue is nominal.

Q. Does any other party support AIC's proposed rate moderation?

A. Yes. As mentioned above, Staff witness Mr. Rukosuev embraces AIC's approach on rate moderation for EDT expense and the DS-4 class.

Q. Does any other party support a more aggressive approach to the DS-4 subsidy for EDT expense?

A. Yes. AG witness Mr. Scott Rubin proposes elimination of the EDT subsidy entirely in this proceeding. (AG Ex. 1.0, p. 10.) I address the propriety of that proposal below in my response to Mr. Rubin.

Q. On page 17 and Table 2 of his direct testimony, IIEC witness Mr. Stephens observes that the proposed increase for the DS-4 class is higher than increases for every other rate class. What is driving the increase in DS-4 rates?

A. The increase in rates is being driven primarily by the correcting for the under-recovery of EDT expense from the class. Under the indicative EDT Cost Recovery charges proposed in

Docket 13-0301, the DS-4 class is expected to pay about 0.027 ¢/kWh on average, even though the overall average EDT cost in that proceeding is about 0.114 ¢/kWh. The DS-4 class pays average DS rates equivalent to about 0.33 ¢/kWh, including the EDT Cost Recovery charge. The EDT Cost Recovery gap of about 0.087 ¢/kWh (0.114 ¢/kWh – 0.027 ¢/kWh) divided by 0.33 ¢/kWh (the present average revenue for DS-4) is about 26%. I am not surprised that relatively small ¢/kWh changes to the overall DS-4 revenue allocation result in larger percentage increases than observed for other classes.

Q. On page 18 and Table 3 of his direct testimony, Mr. Stephens states that the increases for DS-4 High Voltage and +100 kV subclasses are greater than the lower voltage subclass customers. Can you provide context to the percentages that Mr. Stephens cites?

A. Yes. First, the table Mr. Stephens provides is not accurate. Mr. Stephens appears to have created a fourth DS-4 sub-class, one for "secondary," but there is none. The class cost of service study (summarized in Ameren Exhibit 2.3), revenue allocation methodology (shown in Ameren Exhibit 1.2) and test year billing determinants (shown in Ameren Exhibit 1.3) all show three voltage subclasses. AIC witness Mr. Ryan Schonhoff explains in his direct testimony that customers are grouped into the appropriate voltage categories by using supply voltage as the controlling factor for the grouping. Service voltage is the final voltage at the point at which a customer utilizes AIC assets and connects to their assets. Referring to Ameren Exhibit 2.2, the "warehouse" example shows a situation where a Primary supply voltage customer also has a service voltage at the Primary voltage level. The "service station" example on the same exhibit shows a situation where the customer is connected at a Primary supply voltage but takes service from AIC at the Secondary service voltage. Under DS-3 or DS-4, both of these customers would receive the Primary supply voltage Demand Charge. However, the service station would receive

the Transformation Charge, and the Secondary voltage Customer and Meter Charges. The warehouse would not receive the Transformation Charge, and would receive the Primary voltage Customer and Meter Charges. Both the warehouse and the service station are part of the same supply voltage customer "sub-class." By mixing price categories without regard to supply voltage, Mr. Stephens has effectively segregated revenues from the same customers and placed it into different "classes." The table shows, at best, the impacts of various revenue or price component groupings, but it does not show customer class impacts.

There are only three DS-4 sub-classes, which is determined by grouping customers by supply voltage pricing categories. A correction of Mr. Stephens' Table 3 is provided below. The percentage change values correspond to those shown in the "revenue allocation methodology," Ameren Exhibit 1.2. The percentage changes for the primary voltage category tend to be understated in Mr. Stephens' Table 3, while the impacts on the +100 kV tend to be overstated, especially for RZ II +100 kV. Mr. Stephens claims a 306% difference, yet both the revenue allocation table (Ameren Exhibit 1.2) and billing determinants (Ameren Exhibit 1.3) show an increase of only 20.86% to the sub-class.

Correction to Mr. Stephens' Table 3

Change in DS-4 Average Realization: 13-0301 vs Redesign

	Percent		
	RZ I	RZ II	RZ III
Primary	10.0%	10.0%	9.8%
High Voltage	12.4%	20.0%	13.4%
+100 kV	233.6%	20.9%	181.4%

Q. Please continue.

A. As discussed earlier in testimony, percentages do not always portray a complete picture of customer impacts. Relatively modest ¢/kWh increases proposed for a class that pays a very

small ¢/kWh average price today will become distorted. Note that the percentages for +100 kV Rate Zone I is 233.6% and only 20.9% in Rate Zone II. Both Rate Zones are proposed to receive the same 0.05 ¢/kWh change. The dollar per kWh increase impact for the two Rate Zones is the same under AIC's proposal. Eliminating the 0.05 ¢/kWh constraint would perpetrate subsidies within Rate Zone I and III +100 kV supply voltage sub-classes for years to come, while those in Rate Zone II would be removed much quicker. Mr. Stephens does not explain why subsidy elimination within Rate Zone II is acceptable but not in Rate Zones I and III, even though the dollar per kWh impact would be the similar in Rate Zones I and III if the pace of elimination in Rate Zone II were applied to Rate Zones I and III.

Instead, the AIC proposal to implement, as one of the revenue constraints, a 0.05 ¢/kWh revenue allocation limitation attempts to place a cap on the dollar per kWh impact to customers. While the percentage changes for High Voltage and +100 kV supply voltage sub-classes are greater than those for the Primary supply voltage sub-class, the overall ¢/kWh change is limited to no more than 0.05 ¢/kWh for the High Voltage and +100 kV supply categories. In all three Rate Zones, the Primary supply voltage sub-class would receive a larger ¢/kWh increase. Measured on a ¢/kWh basis, the impact is larger for the Primary supply voltage subclass. The following tables show average ¢/kWh under rates proposed in Docket 13-0301 (before rate redesign), the average ¢/kWh that would result if the revenue neutral methodology proposed in this proceeding were to be applied, and the difference in ¢/kWh.

DS-4 Average Realization Proposed in Docket 13-0301

	Cents/kWh		
	RZ I	RZ II	RZ III
Primary	0.816	0.750	1.247
High Voltage	0.401	0.250	0.373
+100 kV	0.021	0.119	0.028

DS-4 Average Realization Proposed Rate Redesign

	Cents/kWh		
	RZ I	RZ II	RZ III
Primary	0.898	0.825	1.369
High Voltage	0.450	0.300	0.423
+100 kV	0.071	0.144	0.078

Change in DS-4 Average Realization: 13-0301 vs Redesign

	Cents/kWh		
	RZ I	RZ II	RZ III
Primary	0.082	0.075	0.122
High Voltage	0.050	0.050	0.050
+100 kV	0.050	0.025	0.050

Q. Mr. Stephens claims that the increases that AIC proposes for the DS-4 High Voltage and +100 kV subclasses "illustrate an unfortunate disregard of the principles of rate continuity and avoidance of rate shock." (IIEC Ex. 1.0, p. 18.) Is that a fair characterization of AIC's proposed rate mitigation?

A. No. The revenue allocation methodology proposed by AIC appropriately balances the desire to move to cost based rates while attempting to avoid undue customer impacts. For the reasons discussed in my direct testimony, and highlighted above, percentage constraints can be too restrictive when attempting to move toward cost-based charges for classes that pay little on a ¢/kWh basis. As shown in my direct testimony on page 13, the DS-4 +100 kV supply voltage sub-class average rate per kWh is 0.044 ¢/kWh. An increase of 10% (illustrative of the maximum class movement in this proceeding absent inclusion of the 0.05 ¢/kWh revenue constraint) would only permit movement of the average rate to increase by 0.004 ¢/kWh. In this instance, the percentages lack context. A limit of about 0.004 ¢/kWh is too small if we are to make more meaningful progress toward eliminating an approximate 0.100 ¢/kWh EDT Cost Recovery subsidy.

Q. Are you persuaded by the analysis Mr. Stephens presented in Table 4 of his direct testimony?

A. No. Table 4 in Mr. Stephens' testimony portrays a hypothetical 81 MW customer bill calculation for each Rate Zone under High Voltage supply and +100 kV supply service. First, it is interesting to note that the *dollar* impacts presented by Mr. Stephens in Table 4 are slightly less for the +100 kV supply voltage customers compared to High Voltage supply customers in Rate Zones I and III ($404,677 and $379,788 increase to the High Voltage hypothetical in Rate Zones I and III, respectively, compared to $280,978 and $300,127 increase to +100 kV hypothetical in Rate Zones I and III, respectively). This highlights the shortcoming of using percentage rate change limitations, especially for customers in the +100 kV supply voltage sub-class. Under the AIC revenue allocation methodology (and including the 0.05 ¢/kWh criteria), an otherwise identical customer would receive about the same amount of dollar increase. Relying instead on a common percentage threshold would result in High Voltage receiving a much greater dollar increase than +100 kV supply voltage for an otherwise identical customer.

In Rate Zone II, the +100 kV supply voltage hypothetical customer receives a greater amount of increase than the High Voltage hypothetical. As discussed in my direct testimony, the Rate Zone II + 100 kV sub-class makes much more extensive use of the Transformation Charge provision than customers in the same supply voltage sub-class in the other two Rate Zones. AIC has proposed a rate decrease to the Transformation Charge within Rate Zone II + 100 kV supply voltage service. Factoring in the Transformation Charge would provide an offset to other increasing charges, lowering the overall percentage impact. As a class, the illustrative revenue neutral increase is proposed to be limited to 20.86%, or 0.05 cents/kWh, for the Rate Zone II +100 kV supply voltage sub-class (*see* Ameren Exhibit 1.2, page 4). Nevertheless, removing the

0.05 ¢/kWh criteria from the revenue allocation methodology and relying instead on a common percentage threshold would result in High Voltage receiving a much greater dollar increase than +100 kV supply voltage for an otherwise identical customer.

Q. Mr. Stephens also claims that AIC's proposal runs counter to the Commission's conclusion in Dockets 09-0306-0311 (cons.). What is the problem with continuing the rate moderation approach approved in Dockets 09-0306-0308 (cons.)?

A. Continuing the rate moderation approach approved in Dockets 09-0306-0308 (cons.) does not permit reasonable movement toward cost based rates. I note that AIC is not abandoning the directive approved in that proceeding to implement rate moderation at the voltage subclass level. Instead it is embraced in the Company's proposed revenue allocation methodology.

Q. Did AIC propose changes to the rate moderation approach approved in Dockets 09-0306-0308 (cons.) in Docket 11-0279?

A. Yes. In Docket 11-0279, AIC recommended that the Commission include EDT expense within the rate moderation methodology, but not apply the revenue allocation constraints on a subclass level. AIC also proposed a three-year phase-out of the EDT subsidy for DS-4 customers, with all classes and subclasses paying the same per-kWh rate at the end of the three-year period. *Ameren Illinois Co.*, Proposed Order, Docket 11-0279, pp. 180-81, 192-93 (Nov. 15, 2011.)

Q. Did AIC propose changes to rate moderation in Docket 11-0279 for similar reasons AIC proposes changes to rate moderation in this proceeding?

A. Yes. It was recognized that the EDT subsidy was so great, and the incremental movements that would be allowed under the Dockets 09-0306-0308 (cons.) revenue allocation

model so restrictive, that achieving elimination of the subsidy would take over two dozen rate case iterations to accomplish.

Q. Did other parties to Docket 11-0279 propose an even more aggressive approach to handling the EDT subsidy to DS-4 customers?

A. Yes. For example, Staff opposed AIC's proposed inclusion of EDT in the rate mitigation approach and AIC's proposed phase-out of the EDT subsidy for DS-4 customers. Instead, Staff proposed that the Commission move to full recovery of EDT through an equal per kWh rate at the end of that proceeding. *Ameren Illinois Co.*, Docket 11-0279, Proposed Order, pp. 182, 193-94 (Nov. 15, 2011.)

Q. Did the Proposed Order in Docket 11-0279 agree with AIC's proposed changes to the rate moderation approach approved in Dockets 09-0306-0308 (cons.)?

A. Yes. The Proposed Order agreed that EDT expense should be included in the rate moderation, but not at the subclass level, and the Proposed Order agreed with AIC's proposal to phase-out the DS-4 subsidy over a three-year period. *Ameren Illinois Co.*, Docket 11-0279, Proposed Order, pp. 185-86, 198 (Nov. 15, 2011.)

Q. If the Commission had approved the Proposed Order's rate moderation in Docket 11-0279, would the subsidy to DS-4 customers have been substantially reduced, and practically eliminated, by now?

A. Yes. The third and final iteration to uniform EDT charges would have been set to take effect in February 2014. The methodology approved in this proceeding will not be reflected in rates until January 2015.

Q. If AIC and the Administrative Law Judges were prepared to end application of the revenue allocation constraints at the subclass level, why has AIC proposed to apply its proposed rate moderation in this proceeding at the subclass level?

A. The approach accomplishes the same end goal—movement toward cost-based rates. We are now operating under annual formula rate model, which provides for an opportunity to adjust prices at the conclusion of each annual formula rate proceeding. In Docket 11-0279, IIEC expressed concern that movement of EDT prices was done outside of the protective boundaries of a rate mitigation model. Now that we know prices will be updated annually (rather than only occasionally after traditional rate filings) similar progress may be made toward leveling EDT prices across all rate classes, and it may be done within the protective boundaries of the revenue allocation methodology (*i.e.*, rate mitigation model).

Q. Mr. Stephens claims that it is "highly inappropriate" to use a combined bill impact analysis to measure the impact of a proposed distribution rate increase. Please respond.

A. The combined bill analysis helps provide perspective. On page 295 of the Commissions' Order in Dockets 09-0306-0308 (cons.), under "Commission Conclusions", the Commission stated "Examples may be offered on both sides of the argument, but the fact remains that when it comes time to pay a bill, a customer's budget, whether it be a residential or industrial customer, is impacted by the bill total regardless of the reasonableness of the bill's components. Accordingly, rate mitigation efforts should be looked at from the perspective of the bill total." Percentages, especially when applied to relatively small starting values, can be misleading without additional perspective.

Q. Are you persuaded by Mr. Stephens' postage stamp and car insurance analogies?

A. No. The problem is that the DS-4 class, especially the +100 kV supply voltage sub-class, is receiving subsidized "insurance". All other customers pay more because of the subsidy. Let's assume all non-DS-4 customers have to pay $1,000 for their car insurance. The +100 kV supply voltage class receives theirs for only $84 (the equivalent of the difference between the EDT charges for the two groups). If the subsidy were eliminated, all customers would pay $647. The question is determining the appropriate means to balance customer impact of increasing rates for the DS-4 class against the desire to lower prices for all other classes. AIC's proposal provides that balance.

Q. If the Commission were to eliminate the 0.05¢/kWh constraint, can the values for AIC's other two constraints be modified to allow for sufficient movement toward cost of service?

A. No, not without creating the potential for undue customer impacts on other rate classes. If the increase threshold were raised from 10% to 50% (the second mitigation constraint), it would still take more than 4 iterations in Rate Zone I, 2 iterations in Rate Zone II, and 4 iterations in Rate Zone III to achieve EDT subsidy elimination—assuming no other DS-4 costs changed. Meanwhile, other customer classes would be subject to much larger potential bill impacts. On average, a 50% delivery service increase to the DS-1 residential class would result in nearly a 2 ¢/kwh increase, or nearly 25% for on a total bill basis.

Q. If the Commission were to eliminate the 0.05¢/kWh constraint, how would that impact movement toward cost-based rates?

A. Assuming the other two mitigation constraints are retained as proposed, the EDT subsidy would persist for many years (estimated 13 years on average across AIC, 19 years in Rate Zone

I, 7 years in Rate Zone II, and 17 years in Rate Zone III), beyond the legislatively planned duration of formula rates.

Q. Mr. Stephens criticizes AIC's proposal to eliminate the EDT subsidy in "three or fewer" formula rate proceedings. Do you share his concern that AIC's proposed rate moderation does not eliminate the EDT subsidy gradually enough?

A. No. Had the rate moderation in the Proposed Order in Docket 11-0279 been approved by the Commission in January 2012, the existing subsidy to DS-4 customers would have been nearly eliminated by now. Instead, when the rate design approved in this proceeding is applied to the revenue requirement approved in AIC's next formula rate proceeding, almost three years will have passed. Some may say that the Commission would be justified to apply Staff's proposal from Docket 11-0279, which would guarantee that the subsidy was eliminated entirely in the next formula rate proceeding, given the time that has passed. But AIC believes the three-pronged revenue constraint that it proposes constitutes a fair and reasonable compromise to eliminate the subsidy over "three or fewer" proceedings.

VI. RESPONSE TO AG WITNESS MR. RUBIN

Q. Have you reviewed portions of the direct testimony of AG witness Mr. Rubin?

A. Yes. I have reviewed the portions of Mr. Scott Rubin's direct testimony concerning his positions on the Commission's prior use of Straight Fixed Variable (SFV) rate design and AIC's proposed rate design for Residential (DS-1) customers. I also reviewed Mr. Rubin's position on elimination of the EDT subsidy that currently exists for DS-4 customers.

Q. What is Mr. Rubin's recommendation concerning the cost recovery of EDT expense?

A. As noted above, Mr. Rubin advocates elimination of the EDT subsidy that currently exists for DS-4 customers in this proceeding. In other words, for rates that would be effective for the January 2015, Mr. Rubin advocates a full transition to an equalized EDT rate for all customer classes.

Q. Does AIC agree with Mr. Rubin's approach to eliminating the entire EDT subsidy for DS-4 customers in the next update proceeding?

A. No. Mr. Rubin's approach would cause sudden and severe bill impacts for the DS-4 customers. Instead, AIC's approach would move the DS-4 customers to cost over time and promote the rate principle of rate gradualism without such dramatic bill increases caused the moving EDT to the appropriate level.

Q. Do you disagree with Mr. Rubin's criticism of the Commission's prior use of SFV rate design?

A. Yes. The Commission has correctly determined that distribution system costs are fixed, and a SFV rate design more accurately reflects a consumer's actual costs. The Commission has allowed greater recovery of fixed delivery service costs through fixed charges in several recent natural gas and electric proceedings. The Proposed Order in Dockets 11-0279 and 11-0282, when addressing both electric and natural gas residential and small commercial rate design, stated "The Commission, however, is satisfied that AIC has properly characterized its fixed costs, and its proposal is in conformity with the Commission's established policy to allow recovery of a greater portion of fixed costs through the c[u]st[o]mer charge. The Commission finds that AIC's proposed method for determining the customer charge is just and reasonable in this case, as the Commission stated in AIC's past two rate cases." In the Final Order in Docket

11-0282 the Commission conclusion positively reaffirmed SFV rate design by stating "The Commission believes that GCI's opposition is contrary to the Commission's established policy to allow recovery of a greater portion of fixed costs through the customer charge. The Commission, therefore, finds that AIC's proposed method for determining the customer charge is just and reasonable in this case." The Commission established 80% recovery of the fixed delivery service costs through the Customer Charge for AIC residential and small commercial natural gas rates in Dockets 07-0585-0587 (cons.). In the same Dockets, the Commission urged examining SFV designs for electric rates, in part as a means to address bill impacts experienced by the Company's residential customers using electric space-heating. In Dockets 09-0306-0308 (cons.) the Commission approved a movement toward SFV residential electric rate design by approving Customer and Meter Charges totaling $20 per month. Reversing course on SFV now not only runs counter to recovery of fixed costs through fixed charges, it would also negatively impact customers who heat their homes using electricity.

Q. Do you also take issue with Mr. Rubin's criticism of the Commission's treatment of fixed and variable costs?

A. Yes. Mr. Rubin provides an example of fixed versus variable costs relating to utility poles. Under Mr. Rubin's presumption, a percentage of AIC's investment in poles is a variable cost; however, that is a flawed belief. Utility poles are capital costs and are recorded as a fixed asset and booked accordingly to plant. Once installed, the cost of utility poles does not vary with customer usage. Imagine a residential subdivision of 50 residential customers. The cost of poles serving those customers does not change as usage changes through the day, through the summer or winter seasons, or from one year to the next. The same number of utility poles will be in place throughout the year.

Q. In Mr. Rubin's analysis, the percentage of the utility's investment in poles that is a variable cost increases as the time period increases. So, for example, taking his poles example to the extreme, Mr. Rubin admits in response to data request AIC-AG 2.02 that "[i]f a marginal-cost analysis were conducted using a 33-year time frame, under this hypothetical situation, nearly all of a utility's investment in poles would be variable (meaning that it could be changed)." Why is this analysis unsound?

A. The saying attributed to John Maynard Keynes comes to mind: "In the long-run we are all dead." By this I mean that Mr. Rubin's view on pricing leads to a disconnect between the costs already incurred to serve a customer (*i.e.*, fixed cost) and costs that vary as customer usage fluctuates. Under the formula rate structure, prices are updated annually. A residential customer's fluctuations in usage in that one year time period between rate cases will not cause a fluctuation in utility pole costs.

Q. What other examples does Mr. Rubin cite as not being fixed?

A. There are several examples that Mr. Rubin provided in his direct testimony. One expense that he mentioned is labor. Not all labor costs are expensed. Conversely, labor is used to install facilities which are considered fixed, capital projects. For example, when tornado storm damage occurs, poles that are replaced are capitalized; thus, the associated labor is capitalized as well. Further, while I doubt AIC's workforce cannot be "almost instantaneously" reduced as Mr. Rubin suggested, even if it could, that does not make it a variable cost. AIC has a responsibility to its customers to provide reliable, safe service; this cannot be done without adequate personnel. Customers using more or less energy in a year have little to no impact on the Company's operation and maintenance costs.

Q. In response to data request AIC-AG 2.05, Mr. Rubin states that he "uses the term 'fixed' to apply to a cost that the utility cannot vary during the time period being reviewed." What are the problems with that assumption?

A. Mr. Rubin's time period for review appears to be infinite. However, a change in usage for a residential customer is unlikely to result in a meaningful change in costs incurred to serve the customer, especially for the time period rates are to be in effect. Variations in customer usage from one month to the next or even one year to the next do not change the investment in the distribution system that the Company has already made. Effective pricing should provide the Company an opportunity to recover its fixed costs, while providing customers an effective price signal of the costs they cause the Company to incur to provide the next kWh of service.

Q. Mr. Rubin testifies that setting rates based on AIC's definition of fixed costs "fails to give Ameren the proper incentive to improve efficiency." (AG Ex. 1.0, p. 13:267-68.) He suggests that the annual recovery and reconciliation of costs through formula rates, coupled with SFV rate design, gives AIC "no incentive to reduce costs and improve efficiency." Do you agree with this assumption?

A. No. With respect to the SFV rate design, I fail to see how its implementation or absence influences the Company's incentive to operate efficiently. The Commission will approve of a rate design that targets recovery of the residential class revenue requirement under normal weather conditions. This could be the SFV design favored by AIC or a design relying more heavily on recovering fixed costs through a variable per kWh charge favored by Mr. Rubin. Under both scenarios, the Company has an expectation of receiving the same amount of revenue. The Company's incentives to operate efficiently are the same under both pricing scenarios.

Q. In response to data request AIC-AG 2.09, Mr. Rubin states that "one of the reasons utilities advocate for high fixed charges (revenue stability) is no longer applicable for electric utilities in Illinois because of the annual rate adjustment process." Do you agree with this assumption?

A. No. Mr. Rubin appears to be under the mistaken impression that revenue is guaranteed under the formula rate mechanism. It is not. Instead, costs approved in prior rate proceedings in effect for the subject year are reconciled against actual costs incurred. Actual revenue is not reconciled against rate case revenue. Movement away from the SFV rate design will result in greater earnings swings for AIC.[2] Under Mr. Rubin's rate design, a hot summer and/or cold winter will tend to increase AIC revenue while a cool summer and/or warm winter will tend to decrease revenue. And under either a warmer or cooler summer or winter, AIC's distribution delivery costs will be substantially the same. Mr. Rubin's rate design does not reflect AIC's underlying costs, which are largely fixed.

Q. Mr. Rubin also argues that SFV rate design is "grossly unfair to lower-use customers" because it "abandons the recovery of demand-related costs in proportion to energy consumption" and "fails to follow" principles of cost causation. (AG Ex. 1.0, p. 15:306-11.) Why is he incorrect?

A. Mr. Rubin appears to believe that the non-customer-related costs allocated to the residential class is equal to zero for a customer with zero use. It is not. A substantial cost is incurred to be ready to provide the customer electricity if desired. Costs for infrastructure in line transformers, primary line, poles, and distribution substations, (facilities costs allocated to

[2] Revenue swings will be limited by the earnings collar, which is an amount equal to +/-50 basis points on the return on equity.

classes based on demand) are all needed to stand ready to serve customers. Under Mr. Rubin's analysis and proposed rate design, this reality is not recognized. In the extreme, under Mr. Rubin's analysis and rate design, if all residential customers chose to dramatically reduce use to 1 kWh per year only about 28% of the cost of serving the class would be recovered (the amount recovered in Mr. Rubin's proposed Customer and Meter Charges). The remaining 72% of cost is designed to be collected through the variable per kWh charge would go substantially unrecovered. This is in stark contrast to the costs incurred to stand ready to provide service to customers. The unrecovered costs are not variable from one month to the next or even from one year to the next. Under the scenario above, 100% of the distribution costs are incurred to serve customers, not just 28%. An SFV rate design reflects this reality, and recovers more than 28% from customers. System costs are fixed, and stand ready to serve customers whether used or not.

Q. Mr. Rubin argues that he has analyzed "the impact on Ameren's residential customers of moving towards SFV rates since 2007." (AG Ex. 1.0, p. 17:349-50.) Can you describe his analysis?

A. Mr. Rubin started with a data set containing 2012 usage for all residential DS-1 customers. He then excluded customers that did not have a full 12 months of data, or contained months with negative use (resulting from billing adjustments). The data was then grouped into one of 20 annual usage percentiles. August was determined to be the month with peak usage, and thus used as a means to later apportion costs allocated based on demand to each of the 20 percentile groups. Mr. Rubin next applied the DS-1 price components (Customer, Meter, and Distribution Delivery Charges) in effect in 2007 to each customer to calculate "2007 revenue." Prices established in this era did not contain an SFV element, and are thus used to establish a

benchmark to compare to prices that do contain an SFV element. Similarly, current prices (effective January 2013) were used to calculate "2013 revenue."

Mr. Rubin also apportions the total residential embedded cost of service to each of the 20 usage percentile groupings. Because each percentile contains about the same number of customers, each group receives an equal share of the customer-related cost (about 5%). Customer-related costs make up 28.1% of the total class embedded cost (excluding EDT). The remaining 71.9% of cost are allocated to each percentile group based on its respective average of the group's percentage of annual kWh and its percentage of peak-month kWh. For example, the first percentile group used 0.8% of annual class kWh and its peak month use was 0.8% of the DS-1 total. Averaging 0.8% (annual use) and 0.8% (peak month use) gives 0.8%, which was then multiplied by 71.9% to arrive at a demand-related share of 0.57%. The percentile represents 4.9% of customers, thus multiplying the 28.1% share by 4.9% gives 1.37%. Adding the customer and demand components together produces a total of 1.9%, which was used to approximate the total cost attributed to this usage percentile group.

Q. Mr. Rubin claims that the results of his analysis led to the conclusion that the lowest users are paying rates that exceed their cost of service and the highest users are paying rates that are less than the cost of service. Mr. Rubin suggests that this result is due to movement toward SFV going "much too far." (AG Ex. 1.0, p. 23:473.) Do you agree with his conclusions?

A. No. The analysis assumes the cost of serving the residential class can be split into 20 different rate sub-classes and also assumes all non-customer costs exhibit a direct correlation to load. These assumptions must be rejected. As stated earlier, a customer with low or no use still requires facilities to stand by, ready to serve the customer should they desire to consume

electricity. A customer without any use in the year would not be allocated any class costs allocated based on demand under Mr. Rubin's model. The delivery system is designed to serve the maximum expected demands of customers. Once installed, actual usage will not change these fixed costs. Contrary to Mr. Rubin's assertion, the SFV rate design recognizes that fixed costs should be recovered through fixed charges.

Q. Mr. Rubin goes on to conclude that movement toward SFV pricing "has distorted the relationship between rates and the cost of service." (AG Ex. 1.0, p. 24:495-96.) He states that rates "should not pretend" that lowest-use customers "place the same peak demand on the electric distribution system" as highest-use customers. Why do you believe there is not the distortion that Mr. Rubin claims exists?

A. Mr. Rubin believes that the fixed costs allocated to the residential class based on demand should continue to be subdivided into a wide spectrum of subclasses. It is reasonable to assume that low-use customers probably place lower demands on the delivery system than do higher-use customers. It is not reasonable to assume that the fixed costs incurred to serve the class vary in direct proportion to use. Presumably, a zero use customer would not bear any demand-related costs under Mr. Rubin's model even though primary line, poles, transformers, and other infrastructure connect to and stand ready to serve at the moment of the customer's choosing. The SFV rate design recognizes that fixed costs should be recovered through fixed charges.

Q. What rate design recommendations does Mr. Rubin propose for residential (DS-1) customers?

A. Mr. Rubin proposes to unwind the SFV rate design by reducing the revenue to be collected from the combination of the Customer and Meter Charge to equal only the cost deemed

"customer-related" in the cost of service study. Instead of recovering nearly 45% of fixed delivery service revenue through fixed charges, Mr. Rubin's design would instead only recover about 28%. The remainder of the fixed revenue requirement (72%) would be recovered through variable delivery service charges.

Q. What are the problems with Mr. Rubin's proposed Residential (DS-1) Rate Design?

A. Mr. Rubin's rate design would recover more fixed costs through variable price components, compared to the Company's rate design proposal. Mr. Rubin's rate design is contrary to the Commission's preference to recover fixed costs through fixed charges. It would increase revenue volatility for the Company with no corresponding impact to costs incurred. It would also negatively impact electric space-heat customers, a group that tends to be high-use within the residential class.

Q. Mr. Rubin testifies that AIC's proposed customer charge is too high and its proposed kWh charges are too low. For the Commission to agree with Mr. Rubin, would the Commission have to accept his criticism of SFV rate design?

A. Yes. As discussed above, the SFV rate design is cost based. The Commission has recognized that fixed costs should be recovered through fixed charges. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 144 (Jan. 10, 2012); *Central Ill. Light Co.*, *et al.*, Docket 10-0467, Order, p. 232 (Dec. 15, 2010.) It should do so again in this proceeding.

VII. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.